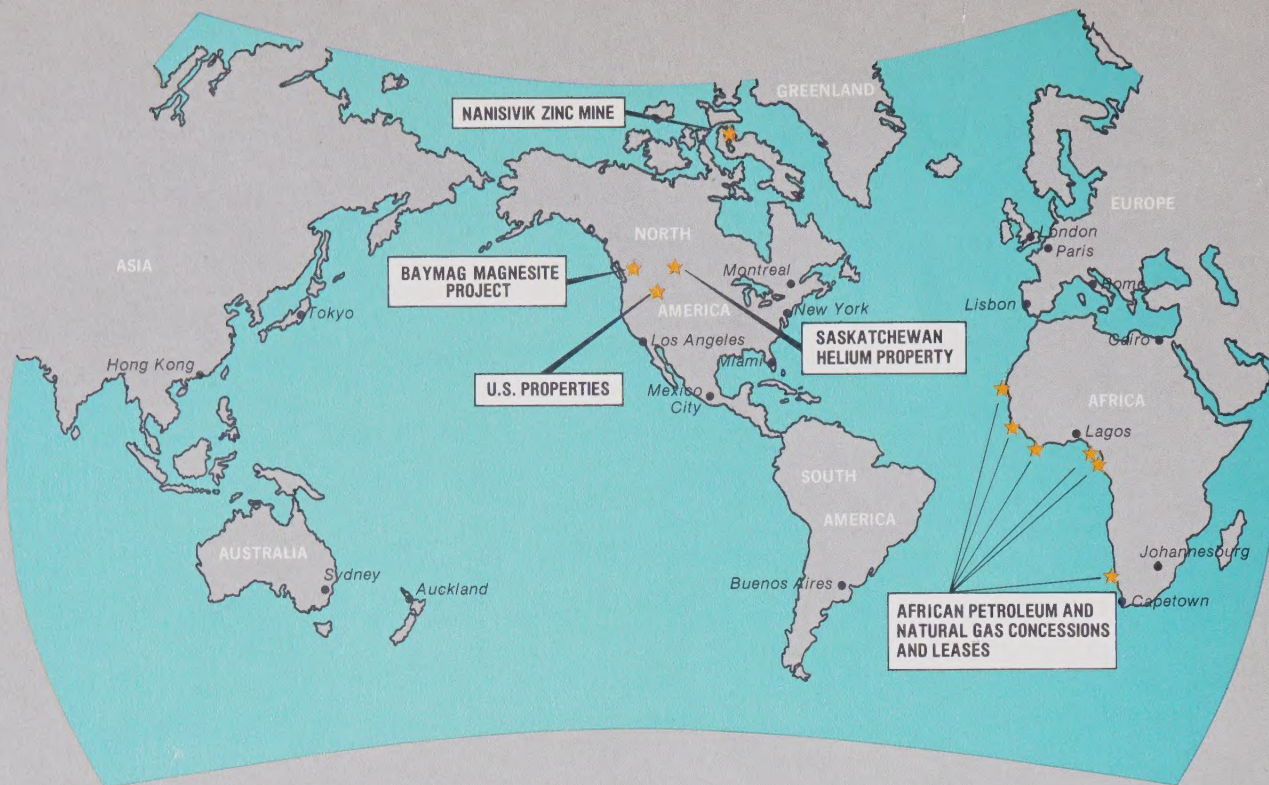


# **MINERAL RESOURCES INTERNATIONAL LIMITED**

**Annual Report  
1976**







## MINERAL RESOURCES INTERNATIONAL LIMITED

### Directors

C. FRANKLIN AGAR  
JOHN BROWN  
VICTOR F. BURSTALL  
WILLIAM A. CLARKE  
ZAVE CLIMAN  
JOHN L. GAIRDNER  
SAM HASHMAN  
HAROLD P. MILAVSKY

### Registrar and Transfer Agent

MONTREAL TRUST COMPANY  
Toronto, Montreal, Winnipeg,  
Calgary and Vancouver

### Solicitors

BURSTALL, CLARKE, JONES & COADY  
Calgary, Alberta

### Head Office:

Suite 401 - 44 Victoria Street  
Toronto, Ontario

### Officers

C. FRANKLIN AGAR, President  
HAROLD P. MILAVSKY, Vice-President  
VICTOR F. BURSTALL, Secretary

### Auditors

TOUCHE ROSS & CO.  
Calgary, Alberta

### Shares Listed

"MRI" The Toronto Stock Exchange

### Operating Office:

100 - One Calgary Place  
330 - 5th Avenue S.W.  
Calgary, Alberta

Cover picture, Nanisivik miners underground.

Cover photo, Panorama on pages 2 - 3  
and town centre picture  
courtesy Scanada Consultants Limited.



## Report to the Shareholders

The highlight of 1976 was the beginning of concentrate production by Nanisivik Mines Ltd. on September 30th. This was achieved four years and three months after the signing of the original option agreement with Texasgulf Inc. To bring this pioneering project into production a long and difficult struggle has been required to overcome a wide range of problems involving Arctic construction, operations and supply logistics, international marketing and financing, and various environmental, sociological and political considerations. We would like to extend our thanks and appreciation for the support of this project by the other corporate shareholders of Nanisivik and for the untiring and dedicated efforts of the various consulting companies involved, particularly Strathcona Mineral Services Limited, the project manager. We would also like to express our appreciation of the efforts of all personnel on site who face the challenge of living and working in an isolated Arctic environment.

After overcoming a number of initial process problems and the effects of a fire in the mine, production operations have steadily improved and Nanisivik is now mining and milling some 1800 metric tonnes per day, achieving excellent metal recoveries and producing high grade concentrates. This should allow some debt retirement in 1977 and a more significant reduction of debt in 1978.

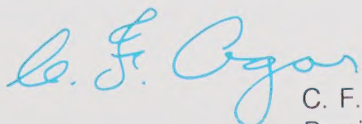
Progress with the Baymag Mines Co. Limited magnesite project has been much slower than originally anticipated, mainly because of the depressed state of the world steel industry and the consequent reduced demand for high grade refractory grades of dead burn magnesite.

As a result of a marketing survey in 1976, a growing demand for non refractory caustic burned magnesite has been identified and Baymag has just completed a feasibility study of initiating a 30,000 metric tonne per year caustic burn magnesite operation with a second stage 60,000 metric tonne per year dead burn magnesite plant to be integrated into the project later as warranted by market demand. Discussions are being held with representatives of prospective marketing outlets and project participants.

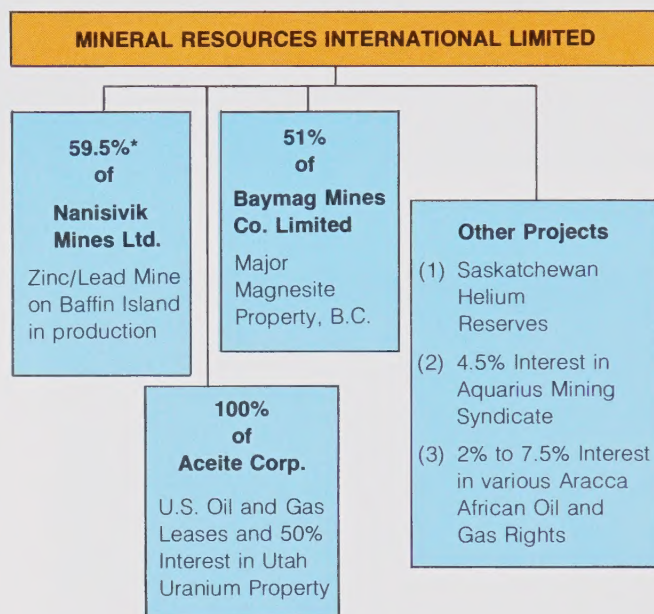
Development of MRI's other holdings is being pursued with less priority and new resource ventures are being examined with a view to diversifying the company's exploration and development activity.

On behalf of the Board of Directors

Calgary, Alberta  
May 9th, 1976



C. F. Agar  
President



\* Overrun capital cost arrangements will reduce this interest but we anticipate that MRI's final interest in Nanisivik will not be less than 50%.





*Town centre building and dome at night*



*Concentrate storage building and ship loader*

## Operations

**Nanisivik Mines Ltd. (MRI 59.5%\*)**

### *Construction*

Construction activities continued throughout 1976 and the major components of the project were completed on schedule. During the winter of 1975-76 work progressed on the installation of equipment underground, particularly the crushing plant and conveyors for the transport of the crushed ore to the concentrator. At the same time work proceeded on the installation of all processing equipment in the concentrator and equipment in the central power plant. This construction was complete by the end of September, 1976, such that commissioning of the plant could commence.

After a public hearing, water licenses were received in mid-1976 which permit the disposal of tailings into West Twin Lake located 3.7 kilometers from the concentrator and 130 meters higher in elevation. Process water is obtained from West Twin Lake and fresh water is obtained from East Twin Lake half a kilometer further east. The pumping equipment and the insulated pipelines were installed and made operational by the end of the 1976 summer season and are operating satisfactorily.

Construction was completed in November of 1976 on the large concentrate storage building which is capable of storing 150,000 tonnes of concentrates located near the dock. The shiploading system will be completed with conveyor belts in the summer of 1977 prior to the arrival of the first concentrate ship.

\*Subject to reduction under overrun financing agreements. Based on current cost estimates MRI will retain in excess of 50% of Nanisivik.





- (1) Strathcona Sound
- (2) Concentrate Storage Building and Dock
- (3) Mill connected by conveyor way to mine
- (4) Upper adit in ore body hill
- (5) Triple pipeline for tailings, recycle water and potable water
- (6) Town centre building construction
- (7) Road to Airport and Arctic Bay

Despite adverse summer weather, airport construction was completed sufficiently such that Nanisivik was able to have twice a week jet service from Montreal throughout the winter of 1976-77. In 1976 a rough road was constructed through to the nearby community of Arctic Bay, 30 kilometers away. This road connects Arctic Bay to the airport and is used by Nanisivik employees resident in Arctic Bay for commuting to work.

The most notable addition to the townsite in 1976 was the erection of a town centre complex to provide for services such as a post office, school, firehall, RCMP offices, Government offices, nursing station and a general store. Additional housing was also built in the townsite for employees, Government staff and the various agencies who will reside at Nanisivik.

Until the end of 1976 the cost to Nanisivik of project construction (excluding property acquisition and exploration costs) was approximately 51 million dollars. Further construction is planned in 1977 including the completion of the airport and road construction projects, the addition of a fifth diesel generator unit in the power plant, and a further expansion of the townsite including necessary municipal services.



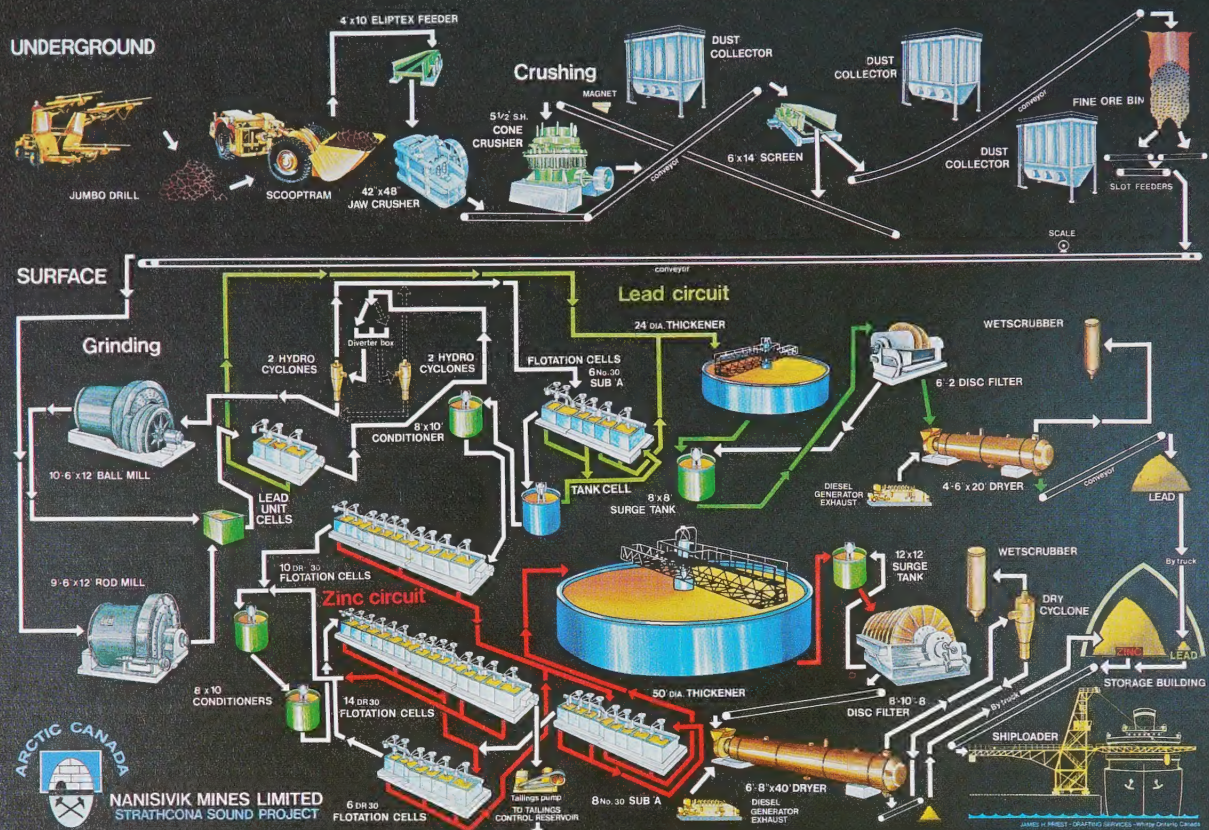
*Lillian Heenan operating atomic absorption analyser*



*Percy Pikuyak, Heavy Equipment Operator and Director of Nanisivik, with his wife and children, one of the families living onsite.*



## DIAGRAMMATIC FLOW SHEET OF NANISIVIK ZINC-LEAD CONCENTRATOR



### Production

Commissioning of equipment and treatment of ore commenced in late September of 1976. In addition to the usual start up problems, it was also necessary to rearrange the flotation circuits. On December 6th a fire occurred underground which destroyed the compressed air supply for the mine and a unit of drilling equipment. This disrupted underground activities and it was not until late January that operations began to return to normal after replacement equipment had been flown to the site and installed. Extensive experimentation with dry drilling techniques underground has developed the system to the point where it is now standard operating procedure.

Since the end of January, 1977 there has been a steady increase in tonnage treated and the consequent production of concentrates. By the end of April the mill was treating 1,800 metric tonnes per day with excellent metallurgical results being obtained. As of the end of April, approximately 220,000 metric tonnes of ore grading 1.7% lead and 13.2% zinc had been treated. It is anticipated that by the end of 1977 ore with a 15% to 17% zinc grade will be mined.

Concentrate production to the end of April was 4,000 tonnes of lead concentrates and 45,000 tonnes of zinc concentrates. It is expected that approximately double this tonnage will be shipped during the 1977 shipping season.

resulted in some additional tonnage being added to the ore reserves and once sufficient underground openings are available, exploration for additional tonnage close to the current work area is planned. Some geophysical work was done in 1976 identifying further anomalies and drill targets on the mineral leases and claims held by Nanisivik Mines.

Recruiting of personnel for permanent positions with Nanisivik Mines is now complete and we have been very pleased with the high calibre personnel who have joined our new organization and taken up the challenge of living and working in the High Arctic. We have been particularly impressed with the positive contribution made to the project by the wives of employees who have filled a variety of jobs traditionally held by men. Our experience with our Inuit employees continues to be favorable with approximately 30% of all operating positions occupied by Northern residents. Training of Inuit in unfamiliar positions in the mine and the mill continues and we would hope to increase the percentage of Northern residents in our permanent workforce in the future.

Cash generation will depend on the operating costs experienced over a complete annual cycle of production and metal prices prevailing during and after concentrate shipments. Based on current metal prices and our cost experiences thus far, our present projections of concentrate production should allow a modest retirement of debt in 1977 and a more significant reduction of debt in 1978.



## Other Properties

### Baymag Mines Co. Limited (MRI 51%)

MRI holds a 51% interest in Baymag Mines Co. Limited whose primary asset is a magnesite property Northeast of Radium Hot Springs, British Columbia. This deposit is one of the largest high grade occurrences of magnesite in the world. Drilled reserves are in excess of 21 million tons and probable reserves several times that amount.

After processing, magnesite has a number of market uses. By heating to about 600°C it becomes "caustic magnesia", which is magnesium oxide. In this form it has a wide variety of uses including the manufacture of other chemicals. If heated to about 1800°C it becomes "dead burned magnesite" and excellent refractory material with good heat and slag resistant properties and thus it is widely used to make refractory bricks for vessel linings in the steel industry and other industries involving high temperature chemical processing.

Over the past several years Baymag and other interested parties have carried out laboratory testing of raw magnesite beneficiation and densification methodology for the production of dead burn magnesite. The results were encouraging and negotiations were advanced toward bringing a large dead burn magnesite project into production. These negotiations have been suspended however because of the current depressed state of the world steel industry and the consequent reduced rate of growth in the market for dead burn magnesite.

A market survey for other possible products was undertaken in 1976 which revealed a growing demand for non refractory caustic burn magnesite. Based on this market, a study has just been completed which indicates it may be feasible to bring a 30,000 metric tonne per year caustic burn magnesite project into production followed, as Stage 2, by a 60,000 metric tonne per year dead burn magnesite plant to be integrated into the project as warranted by markets. Discussions with representatives of potential market outlets and participants concerning this plan are proceeding.

An additional longer term marketing possibility worthy of examination is the concept of supplying raw material to a future magnesium plant. Pure magnesite contains 28.84% by weight magnesium, a metal that has a better strength to weight ratio than steel and aluminum and for this reason, it is used by the aerospace industry. Though Volkswagen has used a considerable amount of magnesium in its cars for years, the U.S. auto industry has yet to adopt this metal though government demands for better gas mileage may bring about a greater magnesium use in the future. To supply such long term market growth it may be feasible to use the Baymag magnesite to supply a plant, located in Alberta or British Columbia where a reliable supply of coal or coke, electrical power and chlorine from the petrochemical industry are available, to produce anhydrous magnesium chloride as feedstock for the electrolytic production of magnesium metal.

### Aquarius Mineral Exploration Joint Venture

MRI did not participate in the budgeted work carried out during the last half of 1976 and now holds a 4.45% interest in the Aquarius venture in Southern British Columbia. Plans for 1977 are being formulated involving a minimum holding program for the Texada Island claims and a transfer of activity to another claim group where a strong and sizeable gold geochemical anomaly was located in 1976. Follow-up overburden stripping, bed rock trenching and drilling is planned.

### Aracca Oil and Gas Venture

The Company holds a 2% to 7½% interest in some 15,500,000 acres of petroleum and natural gas licence areas and rights along the west coast of Africa offshore from Gambia, Liberia, Equatorial Guinea and South West Africa. A drilling commitment on the South African 2½ million acre Block 9 has been extended to December 31, 1978. Industry reports indicate that one or more test wells may be drilled in the vicinity of Block 9 during 1977. Efforts are being made to arrange farmouts on the balance of the acreage in areas where the industry is currently active.

### Montana Oil Exploration

Aceite Corp. holds 7,700 acres near the Sumatra oil field in Montana. During 1976 a second test well on the company's acreage was drilled and abandoned as a dry hole at no cost to Aceite under terms of a farmout agreement. Follow-up test wells are being considered by another operator and farmout arrangements are under discussion.

### Saskatchewan Helium Property

The Company holds a 100% working interest, subject to a 12½% overriding royalty, on a helium lease with two shut in inert gas wells containing an estimated 70 billion cubic foot raw gas reserve containing 1.21% helium near Mankota, Saskatchewan. The gas reserves of the only producing helium plant in Canada some 80 miles northwest of Mankota are reported to be nearing an end and we understand that the operator plans to shut down the plant soon. In light of this situation the feasibility of bringing the company's Mankota inert gas reserves into production is being re-examined.

### Utah Uranium Property

MRI's United States subsidiary company, Aceite Corp., acquired a half interest in a small property which had been in production some years ago in the State of Utah. Aceite participated in a sampling and drilling program on the property which indicated shallow reserves in sandstones, partly mineable by open cut and partly accessible by short adits, totalling some 13,000 tons averaging 3.5 pounds of U<sub>3</sub>O<sub>8</sub> per ton of ore. The relative merits of mining these reserves or selling them in place is being examined.



**Consolidated Balance Sheet as at December 31, 1976****Assets**

	1976	1975
MINING PROPERTIES, at cost		
Nanisivik Mines Ltd. — zinc-lead mine (Note B) . . . . .	<b>\$54,753,563</b>	\$39,108,224
Baymag Mines Co. Limited — magnesite project (Note C) . . .	<b>3,720,880</b>	3,594,816
Other . . . . .	<b>42,963</b>	15,694
	<b>58,517,406</b>	42,718,734
OIL AND GAS LEASES (Note D) . . . . .	<b>1,093,425</b>	1,166,583
CASH AND SHORT-TERM DEPOSITS . . . . .	<b>505,279</b>	1,534,387
ACCOUNTS RECEIVABLE (Note E-3) . . . . .	<b>3,982,484</b>	3,370,518
CONSUMABLES INVENTORY AND OTHER ASSETS . . . . .	<b>4,520,005</b>	73,139
	<b>\$68,618,599</b>	\$48,863,361

**Auditors' Report**

The Shareholders,  
Mineral Resources International Limited.

We have examined the consolidated balance sheet of Mineral Resources International Limited as at December 31, 1976 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
March 21, 1977

Touche Ross & Co.  
Chartered Accountants



## Liabilities

	1976	1975
NANISIVIK MINES LTD. PROJECT LOANS (Note B-3) . . . . .	<b>\$57,097,177</b>	\$36,392,281
PURCHASE AGREEMENT — BAYMAG MINES CO. LIMITED (Note C-1) . . . . .	<b>2,025,000</b>	2,025,000
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES . . . . .	<b>2,704,458</b>	3,496,954
Total liabilities . . . . .	<b>61,826,635</b>	41,914,235
MINORITY INTERESTS . . . . .	<b>1,974,966</b>	1,974,966

## Shareholders' Equity

CAPITAL STOCK (Note E)		
Authorized		
— 10,000,000 shares without par value		
Issued		
— 7,246,174 shares (1975 — 7,242,174 shares) . . . . .	<b>7,045,220</b>	25,431,349
DEFICIT (Note E-2) . . . . .	<b>(2,228,222)</b>	(20,457,189)
	<b>4,816,998</b>	4,974,160
	<b>\$68,618,599</b>	\$48,863,361

Signed on behalf of the Board

*C. F. Ogar*

Director

*H. M. Lundy*

Director



**Consolidated Statement of Loss and Deficit**

For The Year Ended December 31, 1976

	1976	1975
Interest income . . . . .	\$ 53,782	\$ 52,929
Expenses		
General administrative . . . . .	86,158	82,231
Interest . . . . .	—	14,263
Abandoned projects and related expenses . . . . .	125,105	91,334
Depreciation . . . . .	1,681	1,813
	<u>212,944</u>	<u>189,641</u>
NET LOSS FOR THE YEAR . . . . .	159,162	136,712
Deficit at beginning of year . . . . .	20,457,189	20,320,477
Less — decrease in issued capital stock (Note E-2) . . . . .	(18,388,129)	—
Deficit at end of year . . . . .	<u>\$ 2,228,222</u>	<u>\$20,457,189</u>
Loss per share . . . . .	<u>\$ .02</u>	<u>\$ .02</u>



**Consolidated Statement of Changes in Financial Position**

For The Year Ended December 31, 1976

	1976	1975
<b>Source of funds</b>		
Nanisivik Mines Ltd. — zinc-lead mine project loans . . . . .	<b>\$ 20,704,896</b>	\$21,766,999
Increase in accounts payable and accrued liabilities . . . . .	—	2,591,495
Purchase agreement — Baymag Mines Co. Limited . . . . .	—	2,275,000
Minority interest . . . . .	—	1,974,966
Issue of shares . . . . .	<b>2,000</b>	1,465,000
	<b>20,706,896</b>	30,073,460
<b>Application of funds</b>		
To operations		
Net loss for the year . . . . .	<b>159,162</b>	136,712
Items not requiring an outlay of funds		
Property written-off . . . . .	<b>(114,615)</b>	(70,613)
Depreciation . . . . .	<b>(1,681)</b>	(1,813)
	<b>42,866</b>	64,286
Development of mining properties . . . . .	<b>19,961,796</b>	24,807,996
Increase in accounts receivable . . . . .	<b>611,966</b>	3,292,059
Decrease in accounts payable and accrued liabilities . . . . .	<b>792,496</b>	—
Repayment of bank loan . . . . .	—	470,000
Conversion of 7% debentures . . . . .	—	330,000
Payment on purchase agreement — Baymag Mines Co. Limited . . . . .	—	250,000
Increase in other assets . . . . .	<b>283,742</b>	64,528
Oil and gas project expenditures . . . . .	<b>43,138</b>	56,665
	<b>21,736,004</b>	29,335,534
Increase (decrease) in cash and short-term deposits . . . . .	<b>\$ (1,029,108)</b>	\$ 737,926



**Notes to the Consolidated Financial Statements**

December 31, 1976

**A. Summary of Accounting Policies****1. Principles of Consolidation**

The consolidated financial statements include the accounts of the company and its following subsidiaries, all of whose projects were in the development or pilot production stage at December 31, 1976:

Nanisivik Mines Ltd. ("Nanisivik")	—	59.5% owned
Baymag Mines Co. Limited ("Baymag")	—	51% owned
Aceite Corp. ("Aceite")	—	100% owned

The excess of the company's cost of investment in Nanisivik and Baymag over its interest in their net book values on acquisition has been assigned to the asset values of their respective mineral properties.

**2. Exploration and Development Costs**

All direct and indirect costs related to the exploration and development of mineral properties and oil and gas leases are capitalized. Depletion of such costs will be provided for by the unit of production method based on estimated recoverable reserves. If it is determined that a project will not attain commercial production, the related costs are written off.

**3. Foreign Exchange**

Long-term loans payable in foreign currencies have been converted into Canadian currency at historical exchange rates. Short-term deposits and bank balances in foreign currencies have been converted into Canadian currency at current exchange rates.

**B. Nanisivik Zine-Lead Mining Project****1. Agreements**

The Company assigned its interests in the zine-lead mining property on Baffin Island to Nanisivik in exchange for 77.5% of the issued capital of Nanisivik.

By placing the property in production in October 1976, Nanisivik has earned a 100% working interest in the Project, subject to a 35% net profits interest after recovery of certain development and exploration costs.

The Government of Canada has agreed to provide loans and certain infrastructure facilities for the Project for which it will be entitled to receive 18% of the issued capital of Nanisivik from the Company.

Metallgesellschaft AG, Billiton BV, and Texasgulf Inc. are providing overrun financing for the Project. Additional shares owned by the Company in Nanisivik may be earned by those companies by providing such overrun financing.

Based on the current estimated cost of completion of the Project (\$66,000,000, exclusive of working capital), the company will retain in excess of 50% of the issued capital of Nanisivik. Financing has been arranged for the \$66,000,000 as well as for working capital requirements.

**2. Project Expenditures**

	1976	1975
Mining property . . . . .	\$ 1,934,367	\$ 1,930,813
Exploration costs (Pre 1974) . . . . .	4,173,995	4,173,995
Mine and mine site development . . . . .	24,239,502	17,052,825
Mine site service facilities . . . . .	5,360,530	3,654,909
Indirect costs . . . . .	18,217,550	10,490,453
Other costs . . . . .	1,459,150	332,491
	<b>55,385,094</b>	37,635,486
Acquisition and finance costs . . . . .	1,468,469	1,472,738
	<b>56,853,563</b>	39,108,224
Less: Estimated market value of concentrate on site . . . . .	(2,100,000)	—
	<b>\$54,753,563</b>	\$39,108,224



At December 31, 1976, Nanisivik was in the process of preparing several insurance claims for fire damage and related interruption of business. The amount of these claims, when settled will be credited to the applicable development costs as a recovery.

### 3. Project Loans

	1976	1975
<b>SENIOR LOANS</b>		
Kreditanstalt Für Wiederaufbau . . . . .	\$ 8,757,095	\$ 8,757,095
Toronto-Dominion Bank . . . . .	9,000,000	9,000,000
Citicorp Ltd. . . . .	8,000,000	8,000,000
Accrued interest . . . . .	876,452	—
	<b>26,633,547</b>	25,757,095
<b>SUBORDINATED LOANS</b>		
Metallgesellschaft AG . . . . .	3,755,838	3,000,000
Billiton BV . . . . .	3,757,083	3,000,000
Accrued interest . . . . .	1,320,857	461,191
	<b>8,833,778</b>	6,461,191
<b>OVERRUN LOANS</b>		
Metallgesellschaft AG . . . . .	944,762	—
Billiton BV . . . . .	954,638	—
Texasgulf Inc. . . . .	10,000,000	—
Accrued interest . . . . .	458,560	—
	<b>12,357,960</b>	—
<b>BRIDGING LOAN</b>		
Toronto-Dominion Bank . . . . .	923,013	—
<b>WORKING CAPITAL LOAN</b>		
Toronto-Dominion Bank . . . . .	1,551,749	—
<b>MORTGAGES PAYABLE</b>	<b>2,623,135</b>	—
<b>OTHER LOANS</b>		
Metallgesellschaft AG . . . . .	521,900	521,900
Billiton BV . . . . .	521,900	521,900
Texasgulf Inc. . . . .	3,130,195	3,130,195
	<b>4,173,995</b>	4,173,995
	<b>\$57,097,177</b>	\$36,392,281

#### (a) Senior Loans

Provision is made under a loan agreement between Nanisivik and the Toronto-Dominion Bank and Citicorp Ltd. for loans for the Project of up to \$17,000,000 (Canadian equivalent). Pursuant to an agreement of the same date with Kreditanstalt Für Wiederaufbau, a German state bank, provision is made for a loan for the Project of up to 22,000,000 Deutsche Marks (approximately \$8,000,000 Canadian equivalent). Metallgesellschaft AG and Billiton BV have guaranteed the obligations of Nanisivik under the Senior loan agreements, and the Company has in turn guaranteed the performance of the guarantee by Metallgesellschaft AG and Billiton BV.

The amount due to the Toronto-Dominion Bank at December 31, 1976 was \$8,873,186 U.S., repayable in annual installments during the period March 31, 1978 to March 31, 1983. The loan carries an interest rate of the LIBO rate plus 1<sup>1</sup>/<sub>4</sub>% per annum.

The amount due to Citicorp Ltd. is repayable in annual installments during the period March 31, 1978 to March 31, 1983. The loan carries an interest rate equivalent to that of the 90 day Canadian commercial paper rate, plus 1<sup>3</sup>/<sub>4</sub>% per annum.

The amount due to Kreditanstalt Für Wiederaufbau at December 31, 1976 was 22,000,000 Deutsche Marks, repayable in annual installments during the period March 15, 1980 to March 15, 1986. The loan carries an interest rate of 1<sup>1</sup>/<sub>4</sub>% per annum plus the effective rate of borrowing equivalent funds on the German capital market.

The average rate of interest in effect in December of 1976 on Senior loans was 10%.

#### (b) Subordinated loans

Metallgesellschaft AG and Billiton BV have agreed to provide additional loans totalling \$8,000,000 to Nanisivik, of which \$7,512,921 had been drawn at December 31, 1976. These loans are subordinated to the Senior Loans provided by the banks.



The amounts due to Metallgesellschaft AG and Billiton BV carry an interest rate of  $\frac{1}{4}$  of 1% above the weighted average interest on the Senior Loans, and after the repayment of the Senior Loans, at a rate of  $2\frac{1}{4}\%$  above the prime lending rate of the Toronto-Dominion Bank. The amounts due to Metallgesellschaft AG and Billiton BV at December 31, 1976 were 10,432,906 Deutsche Marks and 10,656,819 Dutch Guilders respectively.

The loans are repayable on January 1, 1986 and can be extended under certain circumstances.

(c) ***Security on Senior and Subordinated Loans***

Senior and subordinated loans are secured by fixed and specific charges on the Mining Property and on all plant, fixed machinery and fixed equipment purchased or acquired by the company, and by a floating charge on the undertaking and all other property and assets of the company.

(d) ***Overrun Loans***

By an agreement dated February 25, 1975, provision is made for overrun loans to the Company not exceeding \$12,500,000 (Cdn. equivalent) from Texasgulf Inc., Metallgesellschaft AG and Billiton BV. These loans are subordinated to the Senior Loans provided by the banks.

The Overrun Loans carry the same rate of interest as Subordinated Loans and are secured by fixed and floating charges on the Mining Property and on all plant, fixed machinery and fixed equipment purchased or acquired by the Company, and by a floating charge on the undertaking and all other property and assets of the Company but subject to the security of Subordinated Loans. The loans are repayable on January 1, 1986 and can be extended under certain circumstances. The amounts due to Metallgesellschaft AG and Billiton BV at December 31, 1976 were 2,544,112 Deutsche Marks and 2,714,904 Dutch Guilders respectively (including accrued interest).

(e) ***Bridging Loan***

The bridging loan bears interest based upon the prime lending rate of a Canadian bank and is secured by the ore concentrate stored at the mine site and a specific assignment of CMHC loan contracts.

(f) ***Working Capital Loan***

The working capital loan is payable in U.S. currency and bears interest based upon the LIBO rate. It is secured by the ore concentrate stored at the mine site.

(g) ***Mortgages Payable***

The mortgages are payable to Central Mortgage and Housing Corporation, carry interest rates of 10% and 11.75% and are repayable in blended monthly installments based on a twenty-five year amortization, commencing March 1, 1976 to February 1998. The mortgages are secured by the residential properties at the townsite.

## **C. Baymag Magnesite Project**

### **1. Acquisition of Controlling Interest in Baymag Mines Co. Limited**

During 1975, the Company acquired 1,600,000 additional shares of Baymag Mines Co. Limited for \$2,275,000 payable by installments without interest. A portion of the purchased shares are held in trust as sole security for the outstanding balance.

For the initial payment of \$250,000 to the Vendor, the Company received 250,000 shares of Baymag. For payments of \$125,000 due on September 1, 1977 and September 1, 1978, 250,000 shares will be delivered by the Trustee to the Company. The balance of 1,100,000 shares will be delivered to the Company upon the final annual payment of \$150,000 on September 1, 1990. At December 31, 1976 payments of \$2,025,000 in total remained to be made under terms of the Agreement.

The Agreement provides that the only remedy of the Vendor in the event of the failure of the Company to make any payment is the return of the shares then being held by the Trustee.

As at December 31, 1976 the Company owned 1,959,690 shares of Baymag or 51% of the outstanding capital stock of Baymag.

### **2. Magnesite Claims**

Baymag owns mineral claims covering high-grade magnesite deposits in British Columbia.



### 3. Project Costs Capitalized

	1976	1975
Claims . . . . .	<b>\$3,109,340</b>	\$3,109,340
Deferred exploration and development . . . . .	<b>519,481</b>	519,481
Other costs (net) . . . . .	<b>92,059</b>	(34,005)
	<b><u>\$3,720,880</u></b>	<b><u>\$3,594,816</u></b>

### 4. Royalty Agreements

Baymag is required to pay a royalty of \$2 escalated for inflation per long ton of dead burned magnesite sold from the mining property.

### D. Oil and Gas Leases

The helium property in Saskatchewan is carried at \$1,004,510 which represents the cost of leases, development expenses and related equipment.

### E. Capital Stock

1. Issued stock is summarized as follows:

	1976		1975	
	Shares	Amount	Shares	Amount
Balance at beginning of year . . . . .	<b>7,242,174</b>	<b>\$25,431,349</b>	5,347,174	\$23,966,349
Issued				
On conversion of				
7% debentures . . . . .	—	—	660,000	330,000
For warrants exercised . . . . .	—	—	660,000	330,000
For cash . . . . .	—	—	400,000	700,000
1975 Employees' Share				
Purchase Plan . . . . .	—	—	175,000	105,000
For options exercised . . . . .	<b>4,000</b>	<b>2,000</b>	—	—
	<b><u>7,246,174</u></b>	<b><u>25,433,349</u></b>	<b><u>7,242,174</u></b>	<b><u>25,431,349</u></b>
Less — decrease in				
issued capital . . . . .	—	<b>(18,388,129)</b>	—	—
Balance at end of year . . . . .	<b><u>7,246,174</u></b>	<b><u>\$ 7,045,220</u></b>	<b><u>7,242,174</u></b>	<b><u>\$25,431,349</u></b>

2. On August 5, 1976, the Company's Articles were amended under Section 190 of The Business Corporations Act of Ontario decreasing issued capital of the Company by \$18,388,129.

3. A total of 350,000 of the Company's treasury shares were reserved for allotment to designated employees pursuant to the company's 1975 Employees' Share Purchase Plan. Of these, 175,000 remained reserved for allotment at December 31, 1976. Accounts receivable include \$150,000 owing to the Company pursuant to the plan.

A total of 21,000 of the Company's treasury shares are reserved for allotment to designated employees under an option plan which will expire in 1977.

4. Under an agreement dated October 28, 1976, the Company has granted certain options to a maximum of 300,000 of its treasury shares if sufficient uranium reserves are established under a joint exploration and development project of Aceite and Emery Uranium Inc.

### F. Income Taxes

At December 31, 1976 the Company and its subsidiaries had the following tax deductible expenditures available:

	The Company	Nanisivik	Baymag	Aceite
Exploration and development				
expenditures and undepr-				
ciated capital cost . . . . .	\$2,395,000	\$54,484,000	\$632,000	\$157,000
Non-capital losses . . . . .	\$ 98,000	\$ —	\$209,000	\$ —
Capital losses . . . . .	\$ 237,000	\$ —	\$ —	\$ —

### G. Remuneration of Directors and Senior Officers

The company has eight directors whose aggregate remuneration for the year as directors was \$1,500 (1975 — \$3,250). The company has three officers whose aggregate remuneration for the year as officers was \$50,000 (1975 — \$50,000). All of the officers are also directors.





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